

Monday 31 October 2022

Submitted via email to: netzeroreview@beis.gov.uk

To whom it may concern,

Review of Net Zero: call for evidence

The Chartered Institute of Internal Auditors (Chartered IIA) welcomes the opportunity to contribute our views to the Department for Business, Energy and Industrial Strategy's Review of Net Zero.

The Chartered IIA represents internal audit professionals in organisations spanning all sectors in the UK and Ireland, and it champions the contribution internal audit makes to good governance, strong risk management and a rigorous control environment leading to the long-term success of organisations.

The Chartered IIA is happy to discuss any of the comments included in the response. We would also be keen to be involved in any further consultations or roundtable discussions going forward and are happy for our response to be published.

Your sincerely,



John Wood
Chief Executive

Net zero review: call for evidence

Introduction and context

The Chartered Institute of Internal Auditors (Chartered IIA) welcomes the opportunity to contribute our views to the consultation on reviewing net zero.

The Chartered IIA represents approximately 10,000 internal audit professionals in organisations spanning all sectors of the economy, across the UK and Ireland. We champion the contribution internal audit makes to good corporate governance, strong risk management and a rigorous internal control environment leading to the long-term success of organisations.

The Chartered IIA itself is committed to becoming a net zero organisation and is also committed to challenge and support our members to accelerate their own organisation's efforts to a net zero position. To support our work on climate change and net zero we have become members of a coalition called Climate Action for Associations (CAFA)¹. The aim of CAFA is to harness the power of membership organisations in accelerating action on the climate emergency and accelerate towards a net zero carbon economy. A goal that we fully embrace and support.

The primary role of internal is to help the board and executive management to protect the assets, reputation, and sustainability of the organisation. They do this by providing independent assurance that risks have been effectively identified, managed, and mitigated. Internal auditors seek to ensure that the organisations they serve have strong corporate governance and remain resilient and sustainable.

Their role increasingly includes providing independent assurance that the organisation has identified, managed, and mitigated its climate-related risks and is environmentally sustainable. This includes assurance around net zero plans, targets and commitments, and compliance with climate-related laws and regulations and reporting requirements. We believe the role of internal audit on environmental, social and governance (ESG), and climate change and environmental sustainability as part of this, is crucial to achieving net zero by 2050.

In recent years the Chartered IIA has published several thought leadership research reports, providing guidance and best practice when it comes to auditing climate change related risk. Some of these publications include *Organisations' preparedness for climate change: An internal Audit perspective*² in partnership with the Climate Group and *Harnessing internal audit against climate change risk - a guide for audit committees and directors*³ in partnership with BSI. We believe that the role internal auditing plays in assessing and mitigating risks particularly where climate change is concerned, can play a significant role, and add value to businesses in achieving their net zero targets.

¹ Climate Action for Associations: <https://www.climateactionforassociations.org/>

² Organisations Preparedness for Climate Change – an internal audit perspective: <https://www.iaa.org.uk/policy-and-research/research-reports/organisations-preparedness-for-climate-change-an-internal-audit-perspective/>

³ Harnessing Internal Audit Against Climate Change Risk: <https://www.iaa.org.uk/policy-and-research/research-reports/harnessing-internal-audit-against-climate-change-risk/>

We know that climate change is one of the most dynamic risks on internal audits and organisations agenda, which is reflected in our annual *Risk in Focus*⁴ thought leadership research report. The 2023 *Risk in Focus* survey based on responses from 834 chief audit executives (CAEs) found that climate change was the 6th most important risk they faced, up from 8th last year. With 37% citing it as a top five risk compared to 31% last year. And they expect it to move up to 3rd place (52%) in the risk rankings and 4th in terms of the amount of time they spend on this risk in just three years' time. CAEs taking part in this years' roundtable on the topic agreed that it was moving up the agenda for internal auditors.

As well as producing thought leadership research reports, the Chartered IIA has also published a series of technical guidance for its members to support them in mitigating the risks climate change brings to organisations (a list of relevant technical guidance is included in the Appendix at the end of this response). Some of this guidance includes *Auditing climate data and reporting* which provides detailed guidance on understanding the importance of reporting on their Environmental, Social and Governance (ESG) performance and how corporate sustainability performance enables organisations and investors to make informed choices that drive value and improves sustainability outcomes.

To summarise our views: we believe that there are significant economic opportunities associated with the transition to net zero. However, the flipside is that there are equally significant economic risks associated with not accelerating the delivery of the transition to net zero. Particularly in terms of the economic disruption brought about by climate-related events like floods and heatwaves i.e. the physical risks, events which are likely to increase in severity and frequency moving forwards. As well as the risk of the UK falling behind our international competitors in relation to green investment and technology innovation.

The Chartered IIA believe one of the key components to support decarbonisation and the transition to net zero is for the government to ensure that there is clarity around taxonomies, measures, and effective and comparable reporting of carbon emissions across the economy. Conversations between the Chartered IIA and its members has been crucial in shaping the Chartered IIA's thought leadership research, guidance and policy asks. CAEs and Heads of Internal Audit have communicated their need for a clear and consistent framework to assist with climate-related organisational reporting and to use this framework to create their own net zero plans, timetables, and targets.

1. How does net zero enable us to meet our economic growth target of 2.5% a year?

The challenge to decarbonise our economy and accelerate our net zero ambitions presents significant economic opportunities that if harnessed have great potential to support and enable the UK in meeting its growth target of 2.5% a year.

Senior internal audit executives that we have spoken to in preparing this consultation response all highlight the economic opportunities of moving to a net zero economy. Particularly in terms of green investment, be it in technology, infrastructure to address technological challenges, as well as green investment to support net zero across businesses and homes. All of which has the potential to be a significant driver of economic growth and improved productivity both now and in the future.

⁴ Risk in Focus 2023: <https://www.iaa.org.uk/media/1692518/risk-in-focus-2023.pdf>

According to one of our members who is Audit Director at a large UK financial institution and has specific responsibility for climate change risk, this green growth will be domestic and international. If the UK can take a global leadership position in both the financing of climate-related technology and infrastructure, as well as the development, manufacture, and implementation of the technology, then there are significant economic benefits to be harnessed. However, if we fail to take a global leadership position on decarbonising our economy then there is a significant risk that firms could choose to relocate to our international competitors that are embracing the opportunities. A good example of this is Arrival, a zero-emissions technology company, which is relocating to the USA.

This member sentiment is highlighted and reflected in our recent report *Harnessing internal audit against climate change risk: A guide for audit committees and directors*. In the report we state that companies that are making meaningful adaptations to their processes and business models to reduce the negative impacts on the planet are essentially the companies which are increasingly attractive to investors. This was made explicitly clear when Larry Fink, the Chairman of the world's largest investment firm, Black Rock, said to CEOs that "we know that climate risk is investment risk. But we also believe the climate transition presents a historic investment opportunity"⁵.

The other side of the coin is that the economic impact of the physical risks related to climate change and failure to deliver on net zero could have a negative impact on growth going forwards. Good examples of the physical risks include the impacts of climate-related heatwaves and floods. This year, in parts of the UK the temperature peaked at 40.3 degrees Celsius for the first time in recorded history. The Mayor of London⁶ revealed that the heatwave impacted the number of visitors and workers in central London, which plummeted to only 74% of the previous month. Meanwhile, extreme weather events abroad, like the recent devastating floods in Pakistan threaten to disrupt global supply chains. This demonstrates that climate change is already having a tangible impact on our growth prospects and underlines the need for urgent action and acceleration towards a net zero economy. The role that internal audit can play in supporting businesses to anticipate and mitigate these risks will be instrumental in minimising some of this disruption.

It is therefore clear that this level of climate-related business disruption, caused by events like heatwaves and floods, which are only likely to grow in severity and frequency in the years ahead, is unsustainable going forward. Governments and businesses must plan and work together to put in place frameworks to effectively manage and mitigate these risks.

Indeed, business disruption itself is a risk that will be on many internal auditors' agenda and is an area of focus to support their organisations resilience to climate disasters. If we do not redouble our efforts on net zero going forward, we could continue to see businesses and economic growth disrupted on a regular basis, which could stymie the 2.5% growth target.

The most effective long-term mitigation measure to manage these risks is to accelerate efforts to a net-zero position and harness the economic opportunities this presents to support higher levels of growth.

⁵ Black Rock, Larry Fink's 2021 letter to CEOs

⁶ Mayor of London: <https://www.london.gov.uk/press-releases/mayoral/mayor-reveals-economic-impact-of-julys-heatwave>

2. What challenges and obstacles have you identified to decarbonisation?

Senior internal audit executives tell us that the main challenge and obstacle they face in supporting their organisation's decarbonisation efforts is the lack of universal reporting frameworks, standards, measurements, and metrics. Our members highlight that there needs to be greater clarity around taxonomies, measures, and effective reporting of carbon emissions. A universal framework, standards, measures and metrics is essential to supporting high-quality comparable reporting. In a survey of 122 Chief Audit Executives, we carried out as part of our *Organisations Preparedness for Climate Change* report, 83% indicated they supported a universally agreed framework to report climate-related information, including carbon emissions.

4. What more could government do to support businesses, consumers and other actors to decarbonise?

Senior internal audit executives that we have consulted have emphasised the need for clear and universal decarbonisation standards, metrics, frameworks and definitions to support consistency and aid decision-making and comparability both for investors, businesses and consumers.

The Chartered IIA strongly recommends that the government provides more guidance and a universal framework on measuring organisations' carbon footprint. Currently the Task Force on Climate Related Financial Disclosures (TCFD) have developed a framework to help organisations more effectively disclose climate related risks and opportunities through their existing reporting processes. However, a plethora of global standards and frameworks exist creating confusion due to lack of uniformity and the sheer variety of frameworks that currently exist. Providing a universal framework or adopting a best practice framework will help businesses plan better and mitigate climate change related risk, allowing for a more uniform approach when it comes to disclosing climate-related financial disclosures.

We therefore welcome the fact that the government has now introduced mandatory climate-related financial reporting based on the TCFD framework for the UK's largest businesses. While we do believe that this is a step in the right direction, this does not go far enough. First, at present companies within the scope of these new requirements only must report against the four TCFD pillars and not the eleven recommendations that sit below the pillars. To support high-quality comparable reporting, we believe they should have to report against the recommendations. Second, we believe the scope of these requirements should over time be broadened to include more organisations that are currently outside the proposed scope. Small to medium-sized organisations also make significant contributions to carbon emissions and so should contribute to the road to net zero.⁷

The government should use its global leadership position, including as President of COP26, to also ensure that there is an internationally agreed framework, standards, metrics, and measurements to support decarbonisation and the transition to net zero. In this regard, we welcome the recent International Sustainability Standards Board consultation on climate and sustainability disclosures, that aims to create a comprehensive global baseline of sustainability disclosures⁸.

⁷ Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs: [chartered-iaa-response-to-beis-consultation-on-mandatory-climate-related-financial-disclosures.pdf](#)

⁸ ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures: <https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>

8. What growth benefits/opportunities have you had, or do you envisage having, from the net zero transition?

The Chartered IIA's research report *Organisations' preparedness for climate change: An internal audit perspective* states that climate change is arguably the most acute challenge facing our planet during the 21st century. In 2020, for the first time in its history, five of the top ten global risks in the World Economic Forum's Global Risks Report are environmental, with climate change high on the risk agenda in terms of impact and likelihood. However, while climate change does represent an existential risk to organisations, the net zero transition also brings with it significant opportunity, as previously outlined.

Furthermore, the same report identifies that climate change presents huge commercial opportunities through creating new areas of growth, increased demand from sustainable products and services, and increased capital availability as investors favour low-carbon companies. For instance, a group of 215 of the world's largest companies have valued climate risks to their businesses at almost \$1trn; these same companies calculated that climate business opportunities are worth some \$2.1trn, nearly all of which are highly likely or virtually certain.

A case study from *Organisations' preparedness for climate change* from Legal & General Group Plc (L&G) helps to demonstrate how climate change represents an opportunity for L&G to connect with their customers and employees as people become increasingly aware of climate risk and are looking to support socially responsible organisations. As part of the case study interview, they told us that climate change also represents a significant area of growth from an investment and returns point of view.

There is also a big reputational risk attached to climate change, in particular around green washing. For example, in some firms, offsetting schemes were not as effective as they were portrayed to be. Recently, the UK's advertising regulator banned two HSBC advertisements for being "misleading" about the company's work to tackle climate change.⁹ According to the regulator the posters omitted material information about HSBC's activities and marks the regulators first action against a bank for greenwashing.

9. What barriers do you face in decarbonising your business and its operations?

The main barrier we have highlighted in this response is the lack of a universally and globally agreed framework, standards, reporting mechanisms, measurements, and metrics.

To add to some of the barriers previously mentioned in this response, according to our thought leadership research in *Organisations' preparedness for climate change: an internal audit perspective* survey, 23% of respondents felt they didn't receive enough engagement or information from the government to assist them in preparing for climate change.

The Chartered IIA strongly recommends that the government provide more guidance on how they can support businesses to prepare for climate change. Providing a framework with appropriate climate change related metrics to report back will also support businesses to track their net zero progress. In addition, providing an easy-to-use carbon calculator or endorsing an existing one could help organisations and their internal audit functions more effectively track and report on their net zero progress.

⁹ HSBC climate change adverts banned by UK watchdog: <https://www.bbc.co.uk/news/business-63309878>

11. What challenges has the net zero transition presented to your business?

As a small-medium sized business, the biggest challenge that the Chartered IIA has faced in our own transition to net zero is the lack of an easy to understand and simple way of calculating, measuring, and reporting our carbon footprint. Therefore, we believe there could be scope for the government to develop a universal carbon calculator that could be used by organisations big and small.

13. What impacts have decarbonisation/net zero measures had on your business?

The Chartered IIA in July 2021 signed up as a member of an initiative called Climate Action for Associations (CAFA), being a member of this important initiative means that we must start planning our roadmap to net zero. The plan and framework provided by CAFA has detailed guidance on assisting organisations journey to net zero and provide a practical operational framework which can be tailored to suit your organisational needs. This is part of our organisations commitment to tackling climate change and ensuring we practice what we preach. We have established an internal Climate Action Working Group which consists of representatives from all of the business's main functions, to support a joined-up cross organisational work approach.

The Chartered IIA are committed to leading from the front when it comes to our commitment to net zero. We believe it sends a clear message to our members, staff, and stakeholders that we take climate change risk seriously and is willing to take practical steps to mitigate that risk by becoming a net zero organisation. We are excited to share our knowledge and good practice with others as our journey progresses.

14. What more could be done to support your business and/or sector to decarbonise?

Thought leadership research in *Organisations' preparedness for climate change: an internal audit perspective* surveyed 122 Chief Audit Executives (CAEs) across all sectors in the UK and Ireland in order to understand what measures organisations have put in place to prepare for the impacts that climate change will have on their business, as well as measures to reduce their carbon footprint.

The CAE's were asked about the level of engagement and information their organisation had received from government, 23% of CAEs said they had received enough support, while another 23% said they did not receive enough support. These stats could suggest a lack of support from government, had the government provided clear and visible guidance would more CAE's have answered yes to this question? In fact, 68% of respondents said that they would like to see the government go further in helping businesses adapt to climate change.

Therefore, the Chartered IIA strongly urges the government to provide clearer guidance and frameworks in this area so that internal auditors have the necessary tools to focus on auditing climate change and supporting the government's legally binding target of achieving net zero by 2050.



Appendix

Thought leadership research

[Risk in Focus 2023, September 2022](#)

[Harnessing internal audit against climate change risk: A guide for audit committees and directors, October 2021](#)

[Organisations' preparedness for climate change: An internal audit perspective, November 2020](#)

Technical and practical guidance

[Climate impact within supply chains, August 2020](#)

[Auditing climate data reporting and reporting, June 2020](#)

[Sustainable product risk management, April 2020](#)

[Carbon usage, March 2020](#)

[Auditing working conditions – climate change, Feb 2020](#)

[Climate strategy, Jan 2020](#)

[Climate change and environmental impact, November 2019](#)